Preserving American Homeownership Act of 2012 will implement a common sense principal reduction plan to fight foreclosures and save taxpayer dollars

Washington, D.C. - U.S. Reps. Gary Peters (D-MI), **John Campbell (R-CA)** and Keith Ellison (D-MN) introduced the Preserving American Homeownership Act of 2012. The crux of this legislation is the creation of a principal reduction program to allow eligible homeowners to have their underwater properties revalued at a more accurate level. By implementing this program, struggling homeowners could qualify for more affordable monthly mortgage payments which would cut foreclosure rates and strengthen the housing market. And by using a shared appreciation model, taxpayers would receive a portion of future revenues from the sale of the house.

“I’m proud to introduce the Preserving American Homeownership Act to help families facing foreclosure stay in their homes,” said U.S. Rep. Gary Peters (D-MI). “Too many communities in Michigan and across America have been devastated by the housing crisis and we are coming together to address this problem. By giving underwater homeowners that are facing foreclosure the option of principal reduction, we’ll stabilize our housing market, protect our communities and ensure that the American Dream of homeownership is there for our next generation.”

“The answer to this country’s housing crisis is not to sit idly by entrenched in stubborn ideology while the housing market continues to deteriorate,” said **U.S. Rep. John Campbell (R-CA)**. **“Instead, we must address this crisis by taking steps that encourage homeowners to take proactive steps, while minimizing costs to the American taxpayer. This legislation offers homeowners that meet certain criteria the opportunity to repay and remain current on their loan, which would prevent Fannie Mae and Freddie Mac from incurring additional losses. Fewer distressed homeowners means improved consumer sentiment and a healthier housing market, both of which will positively contribute to long-term economic recovery.”**

“Too many Americans, including thousands in Minneapolis, have been dealing with this housing crisis for six years with little relief,” said U.S. Rep. Keith Ellison (D-MN). “Any homeowner whose house is ‘underwater’ is struggling and this bill could give them a clean slate. This bill would let families keep their homes and let investors preserve their investment, which would be fair to families, good for our communities, and would contribute to our economic recovery.”

Background:

PRESERVING AMERICAN HOMEOWNERSHIP ACT OF 2012

“Principal reduction works … It saves taxpayers money and makes homeowners less likely to default.” – Mark Zandi, chief economist of Moody’s Analytics

[F]ailure to act means that further declines in home prices will continue, preventing the rise in consumer spending needed for recovery. As costly as it will be to permanently write down mortgages, it will be even costlier to do nothing and run the risk of another recession. – Martin S. Feldstein, professor of economics at Harvard and chairman of the Council of Economic Advisers under President Ronald Reagan.

- The Scope of the Problem: Since the beginning of the housing crisis in 2006, home values have declined more than 30%, and 22.8% of all homeowners now owe more on their mortgage than their home is worth. A large number of distressed sales is keeping home prices from rising, causing many homeowners to fear they will never be able to get out from under an underwater mortgage.

- The Case for Principal Reduction: Reducing principal balances helps struggling homeowners save their homes, reduces foreclosures, accelerates economic recovery, spurs growth and reduces overall consumer debt, while limiting future taxpayer losses. Principal reduction results in lower re-default rates than other types of mortgage modifications. The cost of reducing principal can often be less than the losses associated with foreclosure, resulting in savings for taxpayers.

- Pilot Program: The Preserving American Homeownership Act directs the FHFA and FHA to create a principal reduction pilot program. Where principal reduction would result in a net present value gain for taxpayers, the homeowner would be eligible for an immediate reduction in principal to a loan to value (LTV) ratio of 115%. If the homeowner continues to make payments for three years additional reductions would be phased in resulting in a LTV ratio of 95%. In order to be eligible for a principal reduction, the homeowner would have to be in danger of foreclosure and so deeply underwater that other remedies, such as principal forbearance, interest rate reduction, or term adjustment will not be enough to give the homeowner an affordable monthly payment.

- Shared Appreciation Model: Losses to taxpayers are further reduced by requiring homeowners to share in any future appreciation. If the borrower sells their home or refinances their mortgage he or she is required to share up to 50% of any appreciation in value to offset the cost of the principal reduction.

- Private Sector Success: According to a recent report issued by the Center for American Progress, the private sector has already begun to embrace shared appreciation principal reduction programs. The report quotes the President of Ocwen Financial Corp. describing that company’s program as a win for the investor and the servicer of the modified loan.